

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2, 2017/2018

**BAC3664 – ACCOUNTING THEORY**  
(All sections / Groups )

5 March 2018  
9.00 a.m - 12.00 p.m  
(3 Hours )

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### INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 2 pages (excluding cover page) with 4 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

**QUESTION 1**

- a) You have studied the “theory of regulatory capture”. Explain the following questions and issues (i, ii and iii) related to it:
- i. Explain with example, what is regulatory capture theory? (4 marks)
  - ii. Explain four situations in which capture may occur. (5 marks)
  - iii. How can standard setting bodies such as the MASB avoid regulatory capture? (9 marks)
- b) Discuss with example, the image of accounting as an economic good. (7 marks)
- (Total: 25 marks)

**QUESTION 2**

- a) Explain, with examples, the inductive approach to accounting theory building and how that theory can be verified or validated? (11 marks)
- b) Although proponents of current cost accounting are convinced that it is more useful than historical cost, there are still arguments as to how the profits should be computed? Explain the arguments between the proponents of the physical capital concept and the financial capital-concept. (9 marks)
- c) “Where once sustainability disclosure was the province of a few unusually green or community-oriented companies, today it is a best practice employed by companies worldwide.”  
Explain, with a suitable example, why sustainability reports are issued by companies to their stakeholders? (5 marks)
- (Total: 25 marks)

Continued....

**QUESTION 3**

- a) Discuss the assumption of capital market research and how a particular item of information is considered valued by investors?

(5 marks)

- b) When there is inconsistency between conceptual framework and an accounting pronouncement, preparers should fall back on the pronouncement instead of conceptual framework. With that, standard setters should not spend resources in developing a conceptual framework. Discuss this statement.

(10 marks)

- c) Define earnings management. Discuss four incentives for firms to engage in earnings management.

(10 marks)

(Total: 25 marks)

**QUESTION 4**

- a) Explain relevant and reliability. Why it is argued that there is a trade-off between these two qualitative characteristics?

(6 marks)

- b) What is agency relationship? Explain monitoring costs, bonding costs and residual loss.

(9 marks)

- c) It is a normal practice for companies to compensate its managers when the financial performance of the company is encouraging. Employing Positive Accounting Theory, discuss the impact of this practice on the managers and the potential action that might be taken by the shareholders of the company.

(10 marks)

(Total: 25 marks)

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